

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0922-01
Bill No.: SB 290
Subject: Energy; Public Service Commission; Utilities
Type: Original
Date: January 31, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$233,938)	(\$236,149)	(\$241,059)
Total Estimated Net Effect on General Revenue Fund	(\$233,938)	(\$236,149)	(\$241,059)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Public Service Commission Fund*	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

*Assumes costs to the Fund of \$402,304, \$437,022, and \$448,216 and offsetting increases in assessments against regulated utilities in the next three fiscal years.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Economic Development, Office of Public Counsel (OPC)** assume Section 393.1007 through 393.1009 of this proposed legislation would significantly increase the workload associated with the review of natural gas company investments and expenses for the five major natural gas utilities (three having multiple operating divisions with separate tariffs). This bill would provide for, on a stand-alone basis, semi-annual reviews and investigations of various investments in plant in service and related expenses along with investments and investment related expenses in security measures and direct expenses for security measures. These investigations are normally performed during rate cases whose frequency ranges from once a year to up to once every seven to ten years depending on the utility involved. OPC will need additional resources to take on these additional tasks.

OPC assumes Section 393.1010 would create two additional procedures that could be used by electric companies to raise rates. OPC anticipates it would need to participate in 10 additional cases before the Public Service Commission, at least one additional case per year for each regulated electrical corporation for each new procedure. (One of the four corporations operates as two separate utilities). OPC will need additional resources to handle this additional workload.

ASSUMPTION (continued)

OPC assumes this proposal dramatically increases the workload for OPC. This bill would result in increased bills for all customer classes that receive service from Missouri natural gas utilities and Missouri electric utilities. This bill requires customers to pay higher rates without consideration of offsetting factors which are directly created by the investments. This bill would allow natural gas and electric utilities to raise rates and thereby customers bills. This would require OPC to investigate, and in all likelihood, file additional complaint cases in order to bring rates back into balance with the necessary overall revenues. This will effectively shift the burden of proof requirements onto OPC (as the representative for utility customers) to propose just and reasonable rates. This bill also creates the potential for unforeseen complex issues to develop in these complaint cases due to the interplay of the single-issue nature of the Infrastructure System Replacement and Security Charge (ISRSC) increases, or electric infrastructure rate increases and general rate cases (and complaint cases to reduce rates).

OPC assumes this bill also mandates a rate design for ISRSC charges that places a disproportionate share on low use customers relative to the demand they place on the system. Thus more frequent general rate cases would be necessary to eliminate the excess rates paid by small customers. These cases would most likely need to be initiated by OPC and require additional expert testimony to provide the requisite burden of proof.

OPC assumes this legislation would also create the need for additional rate investigations to ensure that the rate increases associated with Section 393.1010 should be offset with rate decreases related to other financial or operational factors.

OPC would require four additional FTEs (accountant, engineer, economist, and support staff person) as a result of the annual duties created by this legislation. In addition, OPC would need to retain the specialized expertise of outside consultants to provide input in the area of reasonable and prudent security measures and costs. OPC anticipates the need to perform approximately two additional general rate investigations per year along with resulting complaint cases. OPC would therefore also require approximately \$40,000 in consulting expenses to perform these audits and investigations of the overall cost of service, this being the most economical method of addressing this need.

As to space and accommodations for the 4 new employees within OPC, current workspace would have to be reorganized. Cubicles and furnishings would need to be furnished for new technical personnel. A cubicle already exists for the clerical position. Also necessary equipment would include four computers, an additional printer and copy machine.

ASSUMPTION (continued)

An accountant would be needed to collect, correlate, and verify the additional data associated with the various filings allowed for by the proposed bill. The accountant would be required to audit the data for authenticity and perform reviews of the annual reports upon which this bill requires reliance. This bill allows for a maximum of twenty-six filings per year by the major utilities. In addition, an annual review is required to true-up the actual results to the budgeted data used in determination of the initial ISRSC charge. Additional filings could result from a multi-divisional utility choosing to file separate ISRSCs for each division along with the two smaller natural gas utilities choosing to file an ISRSC under the provisions of this bill.

An engineer would be required to analyze the various planning and implementation procedures associated with the construction of plant in service. This position could also be utilized to provide testimony on the prudence of security measures and relating to the relocation issues mentioned in Section 393.1010. In addition, the bill provides for expedited Commission review of any matter associated with questions of prudence of the plant in service. An outside consultant would not likely be able to respond in time given the time periods provided for in the bill, the learning curve associated with each utilities specific circumstances, and the time period related to procuring the services of outside consultants. The number of cases an engineer would be involved in and would have to address would be consistent with the participation previously stated with respect to the auditor and the engineer.

An economist would be required to address the resulting rate design issues that arise by the mandate contained in this bill regarding the ISRSC charge and the new electric rate recovery procedures. The number of cases an economist would be consistent with the participation that has been previously stated with respect to the accountant and the economist.

OPC already experiences a low support staff/professional ratio. With the addition of three full-time professional positions, our current two support staff positions would be extremely over-burdened with the additional duties the bill would create. An additional support staff position will be within the best interests of the OPC in order to maintain the level of support required to existing and requested professional staff personnel. OPC assumes this would be a Senior Office Support Assistant position.

Oversight has, for fiscal note purposes only, changed the starting salary for the four additional OPC staff requested to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the

Joint Committee on Legislative Research.

ASSUMPTION (continued)

Officials of the **Department of Economic Development, Public Service Commission (PSC)** assume gas and electric corporations would be allowed to file rate schedules for adjustments to rates for recovery of costs for eligible infrastructure system replacements and security upgrades between rate cases. Gas corporation filings would result in an audit of the revenues resulting from the rate adjustment and those established by the PSC for that period for determination of any over or under recoveries to be included in future adjustments to rates.

The proposed bill would result in a significant increase in effort regarding regulation of gas and electric corporations in the state of Missouri. Gas corporations could file petitions with the PSC to establish or change rates to allow for recovery of incurred costs for eligible infrastructure system replacements and security changes between rate cases. Refunds to customers could be provided based on audits of the revenues that result from these changes in rates (through surcharges) and the appropriate revenues found by the PSC for that period. Refunds would be addressed in future changes to rate surcharges. Filings by the gas corporation would need to be responded to in terms of the accuracy of the data used to assess the charge and the accuracy of the proposed rate by the staff within 60 days of the petition being filed. The PSC could hold hearings regarding the proposed surcharges but would be required to issue an order such that the surcharge would become effective not later than 120 days after the petition is filed. These filings by the gas corporations of the state could happen twice each year for each gas corporation.

At the end of twelve months, each of these gas corporations' resulting revenues vs. revenues found by the PSC could be audited for determination of any over or under recoveries. Electric corporations could file petitions with the PSC to recover the utility's expenditures for security measures and insurance required to protect the utility's assets and to recover unreimbursed costs for capitol projects defined in the bill. These petitions could establish or change rates to allow for recovery of incurred costs between rate cases. The procedures for these filings including conditions, review standards, and reasonableness and prudence would be as deemed by the PSC.

An estimate of the additional PSC staff needed to address this increase in workload are provided below:

2 Rate & Tariff Examiner II
2 Utility Regulatory Auditor III
1 Regulatory Law Judge
1 Senior General Counsel

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1 Consumer Services Specialist II

ASSUMPTION (continued)

PSC assumes the current natural gas PGA process results in a significant number of phone calls, especially during price spikes. The proposed bill could potentially affect a larger number of customers than are now affected by natural gas changes in rates.

Oversight has, for fiscal note purposes only, changed the starting salary for the seven requested PSC staff positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes the Public Service Commission would adjust assessments against regulated utilities to offset increased costs due to this proposal; however, the amount of assessment against regulated utilities is limited to one-fourth of 1 percent (.0025) of gross intrastate operating revenues of all utilities under PSC jurisdiction. If assessments are insufficient to cover PSC costs, then the PSC would have to seek an increase in the amount which may be assessed or seek funding for the PSC from different sources.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Cost - Office of Public Counsel</u>			
Personal Service (4 FTE)	(\$112,812)	(\$138,758)	(\$142,227)
Fringe Benefits	(\$45,655)	(\$56,155)	(\$57,559)
Expense and Equipment	<u>(\$75,471)</u>	<u>(\$41,236)</u>	<u>(\$41,273)</u>
Total Cost - OPC	<u>(\$233,938)</u>	<u>(\$236,149)</u>	<u>(\$241,059)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$233,938)</u>	<u>(\$236,149)</u>	<u>(\$241,059)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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**PUBLIC SERVICE COMMISSION
FUND**

<u>Income</u> - Increased Assessments on Regulated Utilities	\$402,304	\$437,022	\$448,216
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<u>Cost</u> - Public Service Commission			
Personal Service (7 FTE)	(\$221,769)	(\$272,776)	(\$279,595)
Fringe Benefits	(\$89,750)	(\$110,392)	(\$113,152)
Expense & Equipment	(\$90,785)	(\$53,854)	(\$55,469)
Total Cost - PSC	<u>(\$402,304)</u>	<u>(\$437,022)</u>	<u>(\$448,216)</u>

**ESTIMATED NET EFFECT ON
PUBLIC SERVICE COMMISSION
FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses served by these natural gas and electric corporations could see their rates for energy vary each month.

DESCRIPTION

This proposal allows for the recovery of certain costs by utilities through an Infrastructure System Replacement and Security Charge (ISRSC).

This proposal allows gas corporations to file a petition with the Public Service Commission to

DESCRIPTION (continued)

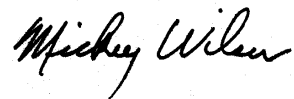
recover costs associated with certain infrastructure system replacements two times per year. The PSC may not approve a charge if it would produce total revenues exceeding 10% of the gas corporation's base revenue level or if the water corporation has not had a general rate proceeding in the last four years. Petition filing requirements are specified in the act. The water corporation is required to reconcile the revenues generated with the underlying costs of the infrastructure replacements. The PSC is given authority to promulgate rules for the implementation of these provisions.

The proposal also allows electric corporations to recover prudent expenditures for security measures. Applications for recovery of such items shall be confidential and subject to a protective order of the PSC. Electric corporations may also apply to the PSC to recover unreimbursed costs for capital projects for required relocations.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Public Counsel
Public Service Commission



Mickey Wilson, CPA
Director
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